

DEDUCTIBILITY OF TRAVEL BY CRUISE SHIP

by Orlando Gotay

As both a former U.S. Deputy Maritime Administrator and Navy officer, I love to write about things maritime. Today, I write about a particular kind of income tax deduction: cruise ship travel.

Whether you can deduct travel depends on its main purpose and how it is conducted. Therefore, proper prior planning is critical.

Find CLE programs aboard a ship, pack up and go, right? Does that aloha shirt fit? Mahalo for not wearing that snug one from last year. Read on!

Domestic cruise ship travel:

You can deduct up to \$2,000 per year of your expenses of attending conventions, seminars, or similar meetings *held on cruise ships*. All ships that sail are considered cruise ships. You can deduct these expenses *only if all* of the following requirements are met:

1. The convention, seminar, or meeting is directly related to your trade or business. (Not a tax comment, but California CLE rules may allow us to take CLE from other jurisdictions so long as it is done outside California borders.)
2. The cruise ship is a vessel registered in the United States. Ever see that tiny print in cruise brochures "SHIPS OF [COUNTRY X] REGISTRY"? If the vessel does not fly the U.S. flag, the ship does not meet the requirement. The entire U.S. cruise ship fleet is composed of one vessel, the *Pride of America*. Another U.S. flagged vessel that could work, such as the *MS American Queen*, sails on the Mississippi River. Ever want to pretend you were Huckleberry Finn? Here's your chance.
3. All of the cruise ship's ports of call must be in the United States or in possessions of the United States. Self-explanatory. Anyway, the *Pride of America* only sails around the Hawaiian Islands.
4. You must attach to your return *two written* statements: one signed by you that includes information about:
 - Total days of the trip (not including the days of transportation to and from the cruise ship port), number of hours each day that you devoted to scheduled business activities, and a program of the scheduled business activities of the meeting.
 - Another, signed by an officer of the organization or group sponsoring the meeting that includes a schedule of the business activities of each day of the

meeting, and the number of hours you attended the scheduled business activities.

Is it worth it? Suppose you are in the 28% bracket: $\$2000 \times .28 = \560 . Really? You would think CLE cruise ship organizers would know of deductibility requirements? Some seem not to understand the rules. I found several examples that would not qualify for a deduction under these rules. Just because they have CLE onboard does not mean you can deduct the trip (you could deduct the CLE expense itself in any event).

International travel and the cruise ship deduction:

How much of your international travel expenses you can deduct depends in part upon how much of your trip outside the United States was business related. If it is all business related, or if the trip is *considered to be* primarily for business, it would also be deductible. There are various "safe harbors." Among them: If your business travel outside the U.S. is no longer than a week, or if you spend no more than 25% of your time in non-business activities, you meet the test. The 25% refers to your regular workday, not 24 hour periods.

You can attend events or conventions in the "North American area" including U.S.A., Puerto Rico, Canada, Mexico, Costa Rica, Bermuda, U.S. Virgin Islands and nearly two dozen other destinations. Should you travel *to them by ship*, water travel to the land based activity would be deductible, subject to a maximum daily amount. For December 2013 that was up to \$748 per day. Cruise travel that breaks out the cost for meals incur a limitation of 50% of the cost of those meals. As travel to a business activity, those days you spend on a cruise ship count automatically as business days. That water travel is free of the onerous reporting requirements for domestic ship travel, and could be done on ships of any flag.

You can bring family along, but their travel is, of course, generally nondeductible.

Careful prior planning can ensure that you could lawfully take and substantiate a deduction. . . . for a business trip that could be pleasurable as well. Consult IRS Publication 463 for all the details and check with your own tax advisor.

Orlando Gotay is a tax attorney with a private practice in Palm Springs. He was the 17th U.S. Deputy Maritime Administrator, and a 1987 graduate of the U.S. Naval Academy. More fine print: this brief article is meant solely as an overview, and does not purport to be tax advice or opinion, under IRS Circular 230.

